



State of Utah

DEPARTMENT OF COMMERCE
Committee of Consumer Services

PRESS RELEASE

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EXTENSION OF LOCAL CALLING AREA SERVICE IN THE UINTAH BASIN

The (Utah) Committee (of Consumer Services) has today petitioned the (Public Service) Commission (of Utah) to review and reconsider an Order it issued on 13 May 2003.

There is considerable demand for an extension of local calling area service (Extended Area Service, or EAS) to replace local toll charges between telephone customers in the Uintah Basin.

The Commission approved a proposal by the telephone companies that serve the Uintah Basin at rates recommended by the (Utah) Division (of Public Utilities). But the Committee believes those rates are unfair to customers.

The Committee completely supports EAS in the Uintah Basin, but believes the Commission should apply several criteria before deciding whether to approve any particular proposal.

- Monthly rates should be based upon the actual costs of providing the service so the phone company covers its costs but there are no subsidies or windfall profits.
- All the relevant facts should be fully disclosed to all the affected customers.
- Those customers should have an opportunity to choose whether they want to pay flat-rate monthly EAS charges instead of per-minute local toll charges.
- Because they are committing themselves and future customers in the area far into the future, a 75% majority should be required to approve the proposal.
- If a sample of customers is surveyed, it should be statistically valid and representative of all customers.
- Everyone who wants to should have sufficient opportunity to provide information and recommendations to the Commission.

SUMMARY OF THE COMMITTEE'S PETITION FOR REVIEW AND RECONSIDERATION

The Order was based upon a 28 May 2002 request from the Uintah Basin Telecommunications Association, Inc, (UBTA) and UBET Telecom, Inc, (UBET) (collectively, the companies) to approve EAS throughout the Uintah Basin.

After ten months of work to obtain some of the necessary traffic and cost data, the Division recommended on 11 April 2003 that the Commission should approve the request with different rates.

The Commission did not schedule a date by which interested parties should file their comments, and the Committee was still working on its analysis when the Order was issued.

The Committee asserts that the rates originally proposed by the companies in their 28 May 2002 request:

- were based on guesswork;
- would result in Duchesne, Roosevelt and Vernal customers subsidizing UBTA customers; and
- would result in windfall profits for the companies.

It further asserts that the different rates recommended by the Division on 11 April 2003 and approved by the Commission in its 13 May Order:

- were not cost based;
- would result in UBET customers subsidizing (to a lesser extent) UBTA customers; and
- the Commission had insufficient information to determine cost based, just and reasonable, rates.

The Committee asks the Commission to revise its Order to require the companies to:

- use a lower traffic growth rate in its cost estimates;
- provide data showing calling rates from business and residential lines separately;
- propose cost based rates;
- measure traffic growth after EAS is implemented; and then
- true rates up so that they cover costs but provide no windfall profits.

The Committee also asserts that the Commission has jurisdiction over telephone cooperatives, that UBTA's customers have been paying unfair EAS rates and should have the protection of the Commission, and asks the Commission to order the companies to provide traffic and cost data between UBTA's exchanges so that reasonable rates can be calculated.

Finally, the Committee informs the Commission that the companies' General Manager and CEO has been reported as saying that they will withdraw their EAS proposal if the rates recommended by the Division on 11 April are not approved. The Committee asserts that the companies cannot withdraw the proposal simply because they are required to offer cost based, fair and reasonable rates.

BACKGROUND AND ADDITIONAL INFORMATION

Charges for a basic telephone line and for a dial tone cover the cost of calls to other lines on the same exchange, but not to lines on other exchanges. When the called exchange is in Utah, a local toll charge (usually about 10 cents a minute) pays for the call. In many (but not all) exchanges, there is an additional flat charge on customers' monthly bills that replaces local toll charges for calls to one or more nearby exchanges. It is usually identified as being for Extended (Local Calling) Area Service, or EAS.

In Duchesne and Uintah counties, the customers of the Altamont, Fruitland, Flattop, LaPoint, Neola, Randlett and Tabiona exchanges are served by the Uintah Basin Telecommunications Association, Inc, (UBTA) – a cooperative. The residential customers of those exchanges have been paying \$4.95 – and business customers \$6.95 a month – for toll-free EAS calling to lines in UBTA's other exchanges.

UBTA is the sole owner of UBET Telecom, Inc, (UBET) which it formed to buy the Duchesne, Roosevelt and Vernal exchanges from US West a few years ago. There is no EAS between UBTA and UBET, or between the UBET exchanges. UBTA customers pay local toll charges to call UBET numbers, and UBET customers pay local toll charges to call any UBTA numbers, as well as those served by UBET exchanges other than their own.

On 28 May 2002, UBTA and UBET asked the Commission to allow them to charge all their customers \$4.95 (\$6.95 for business lines) a month and give them all toll-free calling to one another. The companies had surveyed a sample of their customers, held public meetings, consulted civic leaders, and received considerable support for the idea of Uintah Basin-wide EAS.

The (Utah) Division (of Public Utilities) and the Committee were concerned because UBTA and UBET had provided no information about the calling volume (traffic) or the costs to support these proposed rates. It seemed that they were based on guesswork. Some customers in Vernal and Roosevelt told the Commission, Division, and Committee they thought the rates were too high for the number of calls they would make to lines in the UBTA and other UBET exchanges.

The companies were asked to provide a traffic and cost study to ensure that rates were just (that they would cover the companies' costs) and reasonable (that they would not result in windfall profits and be unfair to customers). The first study was produced in November 2002, but the Division wasn't satisfied with it and subsequently worked extensively with the companies to explain what was necessary and to help them meet the requirements.

On 21 March 2003, the Division received numbers that it felt able to work with and, on 31 March, the Committee received the companies' study and the Division's analysis of it. The Committee retained an expert telecommunications consultant to work with its staff to review these calculations. The consultant identified a number of improvements to make them more accurate, which the companies and Division adopted, lowering the estimated cost of the

proposal.

On 11 April 2003, the Division recommended that the Commission should approve Basin-wide EAS, with rates of \$5.75 for all UBTA customers, \$3.25 for Duchesne, \$2.25 for Roosevelt, and 80 cents for Vernal – with no differential between business and residential lines.

The Committee's staff and consultant continued to review and analyze the data, and began to prepare a memorandum containing recommendations to the Commission.

Usually, the Commission announces deadlines by which interested parties must provide it with their views on cases it is considering. It didn't do that in this case. Instead, on 13 May, the Commission issued an Order approving Basin-wide EAS at the rates the Division had recommended a month earlier. The Committee has the statutory duty to represent customers, and a Commission rule gives it the right to participate in all cases. It has asked the Commission to consider its petition in that light.

Customers often make more, and longer, calls when they go from paying per minute to a monthly flat rate. The companies and the Division have assumed that calling volume (measured in minutes of use) will increase eight-fold. If they prove to be correct, the total cost of Basin-wide EAS will be about \$490 000 per year. The annual cost for the UBTA exchanges will be about \$372 000, and for the UBET exchanges about \$115 000.

The rates the companies had originally proposed on 28 May 2002 would collect about \$1 134 000 annually. UBTA customers would pay about \$199 000 and UBET about \$935 000. The companies would be under collecting about \$173 000 from UBTA customers. UBET customers would not only be subsidizing that under collection, but would be giving the companies windfall profits of about \$647 000 a year.

At the rates the Division recommended on 11 April – and the Commission approved on 13 May – UBTA customers would pay about \$232 000 and UBET about \$255 000. The companies' under collection of about \$141 000 from UBTA customers would be made up by a subsidy from UBET customers, but the windfall profits would be eliminated.

The Committee has told the Commission that there is no evidence to support the assumption that traffic will grow eight-fold. There seem to have been very few cases – none in Utah – where traffic growth has actually been measured after an EAS scheme was implemented. The Committee hasn't been able to find a case where traffic grew to more than 235% of the pre-EAS level, so it has asked the Commission to revise its Order to require the companies to revise their cost study using a three-fold growth factor.

Using that three-fold growth factor, the total cost of Basin-wide EAS will be about \$183 000 annually, \$140 000 for the UBTA exchanges, and \$43 000 for UBET. If UBTA customers pay \$3.47 a month, Duchesne 77 cents, Roosevelt 44 cents, and Vernal customers 9 cents a month, the companies' costs will be fully covered, and all subsidies and windfall profits will be eliminated.

No one knows for sure how much traffic will grow. In one case in Colorado it actually shrank.

Because there is a possibility it will grow less than three-fold, the Committee has also asked the Commission to order the companies to measure the actual growth in the Basin, and to true up rates six months after implementation of EAS.

The Committee is also concerned that, while the companies originally proposed to charge more for business lines, the rates the Commission has approved are the same for all customers. More calls are usually made from business than residential lines, so they should pay a higher share of the costs, but toll-free calling is more valuable to business customers. Uintah Basin residents are just as likely to shop out of the area while they have to pay for individual local toll calls – it doesn't cost any more to call the Wasatch Front – but would be more likely to buy from local businesses when EAS becomes available. EAS rates are, on average, one third higher for Qwest's Utah business than residential lines.

The Committee has asked the Commission to revise its Order to require the companies to separate the business and residential traffic data in its studies, and calculate separate rates based on the different costs of serving the two classes of customers. That will have the effect of increasing the rates mentioned in the paragraph before last for business lines, and reducing them for residential ones. Fair rates cannot be calculated until the companies provide the necessary data.

On 17 April 2003, the Vernal Express reported that Bruce H Todd, General Manager and CEO of the companies, had said: "(i)f these rates (apparently referring to those recommended by the Division on 11 April and approved by the Commission on 13 May) are not approved, we won't provide the service." The companies have repeatedly told the Commission how much support there is in the Uintah Basin for EAS. A survey of customers and public meetings have demonstrated it. Members of the Utah Legislature, county commissions, city mayors, and chambers of commerce have written to the Commission in support of it.

Such support has generally been more than sufficient in the past to lead the Commission to pursue EAS proposals despite the opposition of the telephone companies concerned. The Committee has asked the Commission to make it clear to the companies in this case that this process has gone too far for them to withdraw now. They should be required to provide whatever data, complete whatever studies, and implement EAS at whatever rates the Commission may finally order.

THE UTAH COMMITTEE OF CONSUMER SERVICES

The Committee is a consumer watchdog organization that advocates on behalf of small business, farming, ranching, and residential customers of utility companies providing service in Utah.

It is a State agency, within the Utah Department of Commerce, created by Statute (UCA 54-10). The Committee believes that it has helped to save utility customers more than \$1B since it was established in July 1977.

The Committee has six members, who are appointed by the Governor with the consent of the Senate, and a small professional staff. Customers pay for the Committee through a very small fraction (less than 10 cents in every \$100) of their utility bills.